

BOARD ACTIVITY REPORT  
PURSUANT TO THE COMMUNIQUE SERIAL II. NO.17.1 PRINCIPLES



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01 JANUARY – 31 DECEMBER 2015

BOARD ACTIVITY REPORT

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**1. INDUSTRY DEVELOPMENTS**

The year 2015 was a very challenging year for the aviation industry and Turkish Airlines in particular. A 30-35% decrease in oil prices (the largest cost item of airlines) led to increasing industry total capacity and stronger competition. According to the International Air Transport Association (IATA) passenger revenue decreased by 5.7%, cargo revenue decreased by 16.4%. Another factor that impacted demand and consequently airlines financials was currency fluctuations. Depreciation of Euro and other emerging market currencies against USD, made it difficult for airlines to price and plan. Nevertheless, in 2015, global passenger traffic increased by 6.5%, the highest since 2010. Airlines profitability has also increased significantly.

<u>Aviation Industry Revenue/Expense</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015(*)</u>	<u>2016(*)</u>
<b>REVENUES (\$ billion)</b>	<b>642</b>	<b>706</b>	<b>720</b>	<b>758</b>	<b>710</b>	<b>717</b>
Passenger Revenue	512	531	539	557	525	533
Cargo Revenue	67	64	61	63	52	51
<b>Traffic</b>						
Passenger Km Growth (RPK) %	6.3	5.3	5.7	6.0	6.7	6.9
Cargo Km Growth (FTK) %	0.4	-0.9	0.6	5.0	1.9	3.0
<b>OPERATIONAL EXPENSES (\$ billion)</b>	<b>623</b>	<b>687</b>	<b>695</b>	<b>716</b>	<b>655</b>	<b>658</b>
Fuel	191	228	230	226	180	135
% of expenses	31	33	33	32	27	21
Non-fuel expenses	431	460	465	490	476	523
<b>OPERATING PROFIT (\$ billion)</b>	<b>19.8</b>	<b>18.4</b>	<b>25.3</b>	<b>41.7</b>	<b>55.0</b>	<b>58.6</b>
% margin	3.1	2.6	3.5	5.5	7.7	8.2
<b>NET PROFIT(\$ billion)</b>	<b>8.3</b>	<b>9.2</b>	<b>10.7</b>	<b>17.3</b>	<b>33.0</b>	<b>36.3</b>
% margin	1.3	1.3	1.5	2.3	4.6	5.1

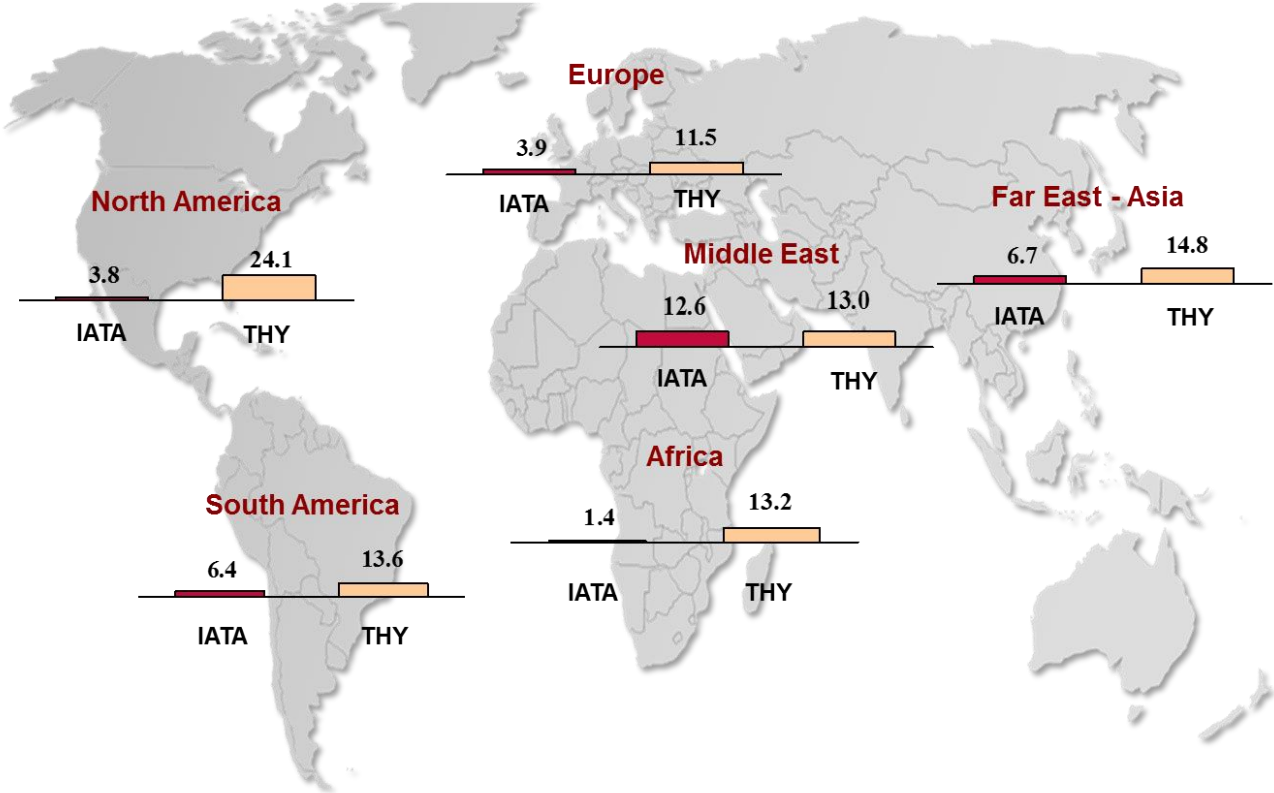
(\*) Annual forecast published by IATA

Source: IATA Airline Industry Economic Performance, December 2015

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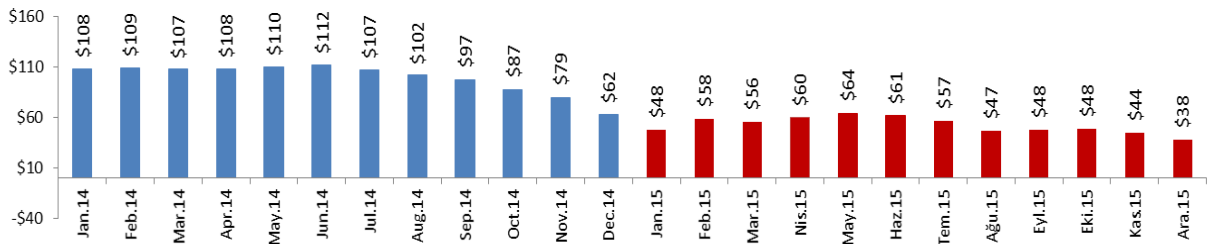
Within the global aviation industry, passenger capacity grew by 5.6% and passenger traffic grew by 6.5% in 2015. While international passenger traffic grew by 6.5% driven by the growth of developing regions, domestic passenger traffic grew by 6.3%. Cargo capacity and cargo traffic grew by 6.1% and 2.2%, respectively.

**Regional Capacity Changes (%)**



During 2015, the highest capacity growth was realized in Middle East (+12.6%), followed by emerging markets, Far East and South America. Turkish Airlines’ growth rate was above the industry average in all regions. (According to Air Passenger Market Analysis of IATA).

**Oil Price per Barrel (Montly Average)**



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Source: U.S. Energy Information Administration

The table below sets out the fuel price analysis of the Incorporation.

<b>FUEL PRICE ANALYSIS</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Fuel Expenses (Million \$)	2,887	3,442	3,806	2.997
Fuel Consumption (000 Tons)	2,680	3,247	3,801	4.272
Average Unit Cost (\$/Tons)	1,077	1,060	1,001	701
Average Change of Unit Cost (%)	2%	-2%	-6%	-30%
Fuel Expense Rate in Operational Expenses (%)	38%	37%	36%	30%

## 2. FIELD OF ACTIVITY, CAPITAL STRUCTURE AND SUBSIDIARIES

Türk Hava Yolları Anonim Ortaklığı (the “Company” or “THY”) was founded in Turkey in 1933. The Company’s main fields of activity are all types of domestic and international passenger and cargo air transportation.

The Incorporation is registered in Istanbul, Turkey (Reg. No: 75184) and its head office address is Türk Hava Yolları A.O. Genel Yönetim Binası, Atatürk Havalimanı, 34149 Yeşilköy İSTANBUL. Detailed info about the Incorporation can be reached via Investor Relations Website. (<http://investor.turkishairlines.com/en>)

As of 31 December 2015, the shareholders and their respective shareholdings in the Incorporation are as follows:

	<u>31 December 2015</u>
Republic of Turkey Prime Ministry Privatization Administration	% 49.12
Other (publicly held)	<u>% 50.88</u>
Total	% 100.00

The authorized capital of the Incorporation is 5,000,000,000 (five billion) Turkish Lira, while the issued share capital is 1,380,000,000 (one billion three hundred and eighty million) Turkish Lira divided into 138,000,000,000 (one hundred thirty eight billion) shares, each with the nominal value of 1 Kuruş (one kuruş) and is completely paid.

Shares are divided into two groups, the distribution of share groups of the issued capital is as follows:

<u>Group</u>	<u>Amount of Capital (TRY)</u>	<u>Type</u>	<u>Number of Shares</u>
A	1,379,999,999.99	Registered	137,999,999,999
C	0.01	Registered	<u>1</u>
<b>TOTAL</b>	<b>1,380,000,000.00</b>		<b>138,000,000,000</b>

Group C share belongs to the Republic of Turkey Prime Ministry Privatization Administration and privileges granted to Group C share are defined in the Articles of Association of the Incorporation.

The table below sets out the consolidated subsidiaries and participation rate of the Group in these as of 31 December 2015:

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<u>Name of the Company</u>	<u>Principal Activity</u>
THY Teknik A.Ş. (Turkish Technic)	Aircraft Maintenance Service
THY Aydın Çıldır Havalimanı İşletme A.Ş.	Training & Airport Operations

**THY Teknik A.Ş. (Turkish Technic)**

Established in 23 May 2006, the Company is a wholly-owned subsidiary of Turkish Airlines. Turkish Technic conducts its activities with the goal of becoming an important regional air transport technical maintenance base by supplying the full range of maintenance, repair, and technical and infrastructure support the aviation industry requires. Until 2013, Turkish Technic operated out of four hangars in Istanbul and Ankara. In June 2015, Turkish Technic merged with Turkish HABOM, which was also a fully owned subsidiary of Turkish Airlines and which has a total MRO capacity to provide simultaneous maintenance, repair and overhaul services for 30 narrow body aircraft and 10 wide body aircraft. As of December 2015, including ex-employees of THY HABOM , Turkish Technic has 5,646 employees.

**THY Aydın Çıldır Havalimanı İşletme A.Ş.**

The Company was established on 21 June 2012 as a wholly-owned subsidiary of Turkish Airlines. Yet to commence operations, it was established to operate Aydın Çıldır Airport, provide aviation training, organize sports-training flights and conduct all activities related to the transportation of passengers with aircraft types appropriate to prevailing runway length. The airport is used as a base for Turkish Airlines Flight Academy and since the first half of 2013 provides flight training for Turkish Airlines Pilot Nominees. As of 31 December 2015, Company has 12 employees.

The Group has ten joint ventures. The affiliates are controlled by the Group jointly, and are accounted for by using the equity method.

The table below sets out consolidated joint ventures and indicates the proportion of ownership interest of the Incorporation in these joint ventures as of 31 December 2015:

<u>Name of the Company</u>	<u>Principal Activity</u>	<u>Direct Participation Rate</u>	<u>Indirect Participation Rate</u>	<u>Country of Registration</u>
Sun Express Turkey	Aircraft Transportation	50%	-	Turkey
Turkish DO&CO	Catering Services	50%	-	Turkey
Turkish Ground Services	Ground Services	50%	-	Turkey

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Turkish Opet Aviation Fuels	Aviation Fuel	50%	-	Turkey
Aircraft Seat Manufacturing Industry & Trade, Inc.	Cabin Interior	45%	5%	Turkey
Turkish Cabin Interior Systems Industries, Inc.	Cabin Interior	30%	20%	Turkey
Pratt Whitney THY Turkish Engine Center (TEC)	Maintenance	-	49%	Turkey
Goodrich Turkish Airlines Technical Service Center	Maintenance	-	40%	Turkey
Turbine Technical Gas Turbines Maintenance & Repair, Inc.	Maintenance	-	50%	Turkey
Tax Free Zone, Inc. (Tax Refund)	VAT Return and Consultancy	30%	-	Turkey

#### **Sun Express - Turkey**

Founded in 1989, SunExpress is a joint venture of Turkish Airlines and Lufthansa, in which each holds a 50% stake. The Company has a fleet of 25 aircraft (for AnadoluJet operations of THY) and serves its customers in both charter and scheduled business with 3,504 employees as of 31 December 2015. SunExpress flies to 22 domestic and 78 international destinations, which brings the total number to 100 destinations. In 2011, SunExpress Germany was founded as a joint venture of Stiftung and SunExpress, in which each holds %50-50 stake. As of 31 December 2015, SunExpress Germany conducts operations to 11 domestic and 43 international destinations with its 11 Boeing 737-800 passenger aircraft.

#### **Turkish DO&CO**

Founded in September 2006, commencing operations in 2007, Turkish DO&CO is a joint venture of Turkish Airlines and DO&CO Restaurants & Catering AG (Austria based), in which each holds a 50% stake. The Company provides inflight catering services to Turkish Airlines and other domestic and international airlines. As of 31 December 2015, 5,111 employees are working for the Company.

#### **Turkish Ground Services**

The Company was established on 26 August 2008 as a wholly-owned subsidiary of Turkish Airlines, in order to provide ground-handling services. By signing the articles of association in the framework of the Board Decision dated on 19.12.2008, 50% of shares was transferred to HAVAŞ Havaalanları Yer Hizmetleri A.Ş. On 1 January 2010, the Company began to provide services to Turkish Airlines. The Company provides ground services for Turkish Airlines in 8 airports in Turkey. TGS is employing 9,654 personnel as of 31 December 2015.

#### **Turkish Opet Aviation Fuels**

Turkish Opet Aviation Fuels, established in 2009, engages in the domestic and international sale, importation, exportation, distribution, and transport of various petroleum products, chemicals, lubricants, and paints for all kinds of aircraft. The Company commenced operations on 1 July 2010. Kuzey Tankercilik A.Ş. and Güney Tankercilik A.Ş., were established on 1 November 2012, as wholly owned subsidiaries of THY Opet Havacılık Yakıtları A.Ş. in order to provide transportation of petroleum and petroleum products. As of 31 December 2015, the Incorporation has 426 employees.

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**Aircraft Seat Manufacturing Industry & Trade, Inc.**

Founded in 2011, the Company was set up to design and manufacture airline seats, and to make, modify, market, and sell spare parts to Turkish Airlines and other international airline companies. Stakes of 50%, 45%, 5% are respectively held by Assan Hanil Group, Turkish Airlines, and Turkish Tecnic. As of 31 December 2015, 42 employees are working for the company.

**Turkish Cabin Interior Systems Industries, Inc.**

Established in December 2010, TCI's objective is to undertake the design, manufacture, logistical support, modification, and marketing of aircraft cabin interior systems and components. Stakes of 30%, 20% and 50% are held respectively by Turkish Airlines, Turkish Technic and Türk Havacılık ve Uzay Sanayi A.Ş. (TUSAŞ – TAI). As of 31 December 2015, the Company has 153 employees.

**Pratt Whitney THY Turkish Engine Center (TEC)**

The Company provides aircraft engine maintenance, repair, and overhaul services to customers in Turkey and its hinterland. Established on 10 October 2008, stakes of %49 and %51 are held respectively by United Technologies, a subsidiary of Pratt&Whitney, and Turkish Airlines. Operating out of a maintenance center with an area of around 25,000 m<sup>2</sup> at Istanbul Sabiha Gökçen International Airport, 268 employees as of 31 December 2015.

**Goodrich Turkish Airlines Technical Service Center**

Established in 2010, the Goodrich Turkish Airlines Technical Service Center is a joint venture of Turkish Technic (40%) and TSA-Rina Holdings (60%), the latter a subsidiary of Goodrich Corporation. Services for maintenance and repair of nacelles, thrust reversers, related parts and rotatable support is provided. As of 31 December 2015, the Company has 31 employees.

**Turbine Technical Gas Turbines Maintenance & Repair, Inc.**

Established on 28 June 2011, as a joint venture of Turkish Technic and Zorlu O&M Enerji Tesisleri İşletme ve Bakım Hizmetleri A.Ş., in which each holds a 50% stake, in order to provide maintenance, repair and overhaul services for gas turbines and industrial gas turbines. As of 31 December 2015, 10 employees are working for the Company.

**Tax Free Zone, Inc. (Tax Refund)**

The Company is established on 1 September 2014 as a joint venture of THY (30%), Maslak Oto (45%) and VK Holding (25%) to carry out brokerage operations of value added tax return regarding the goods bought in Turkey by non-residents. As of 31 December 2015, 11 employees are working for the company.

The Incorporation is responsible for the full and joint control over subsidiaries and affiliates through Board of Directors. In addition, operations of subsidiaries and affiliates are monitored by Senior Vice President of Subsidiaries located within the means of the Parent Company. The internal audit and control functions in the Incorporation are carried out by SVP of Inspection Board, SVP of Quality Assurance and other relevant expertise and financial departments.

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**3. ORGANIZATIONAL STRUCTURE**

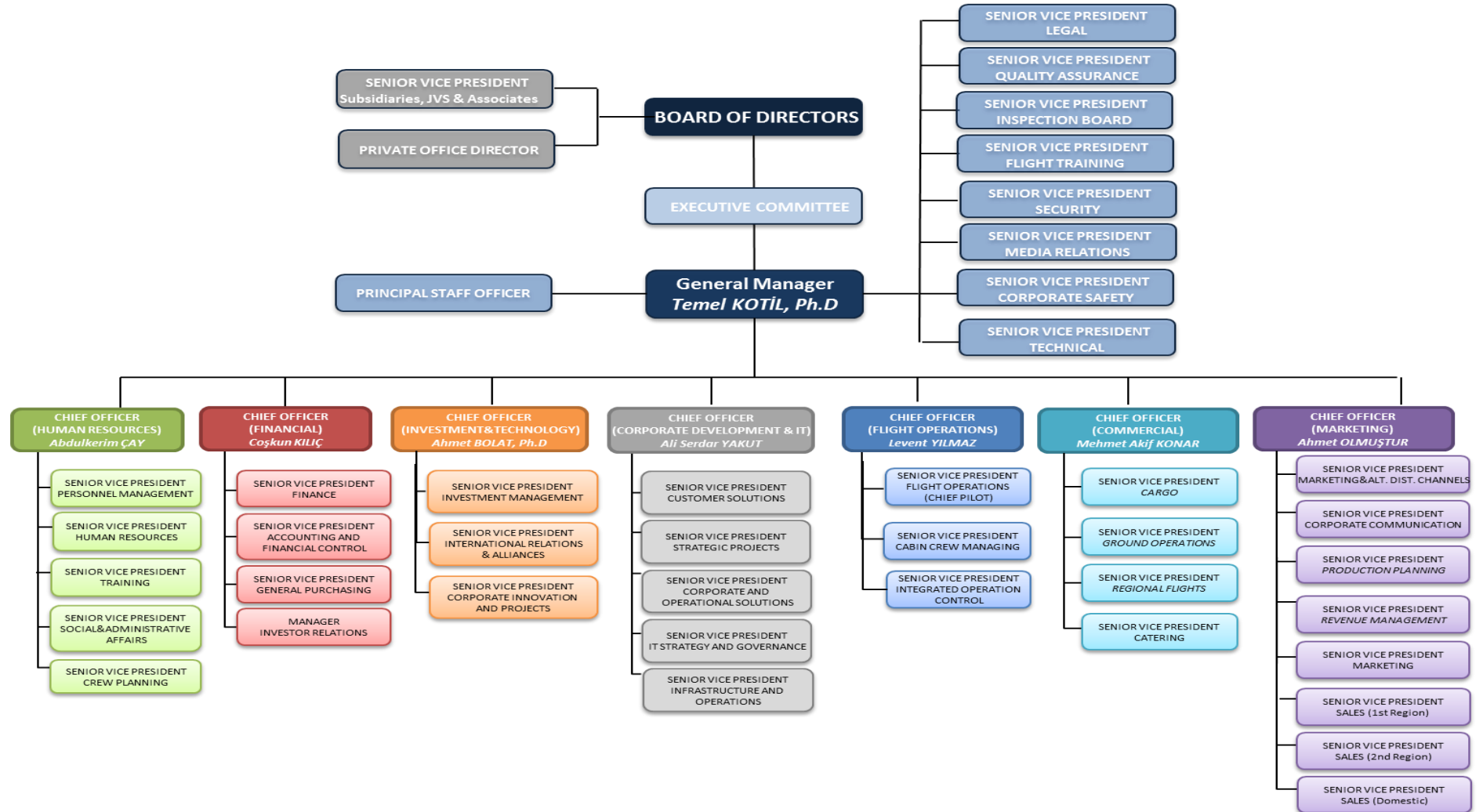
The table below sets out Turkish Airlines' network on a country-city-airport basis as of 31 December 2015:

	<b>COUNTRY</b>	<b>CITY</b>	<b>AIRPORT</b>
<b>DOMESTIC</b>	<b>1</b>	<b>49</b>	<b>51</b>
<b>INTERNATIONAL</b>	<b>112</b>	<b>235</b>	<b>236</b>
Europe	42	107	108
Far East	22	34	34
Middel East	13	34	34
Africa	31	48	48
America	4	12	12
<b>TOTAL</b>	<b>113</b>	<b>284</b>	<b>287</b>

General Management and all central units are gathered around Istanbul Ataturk Airport. Organization chart of Turkish Airlines, as of 31 December 2015 is shown on the next page.

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**4. BOARD OF DIRECTORS AND COMMITTEES**

The Board of Directors is comprised of nine members, out of 3 independent, elected by the General Assembly. The Board of Directors shall approve the strategic targets, continuously and effectively monitor these targets, as well as the activities of the Incorporation and its' past performance. In doing so, the Board shall strive to ensure compliance with international standards, and whenever necessary, take preemptive action to potential problems.

Members of the Board who were on duty as of 31 December 2015 are listed below:

<b>M. İlker AYCI</b>	: Chairman of the Board and the Executive Committee
<b>Doç. Dr. Temel KOTİL</b>	: Vice Chairman of the Board and the Executive Committee, General Manager
<b>İsmail Cenk DİLBEROĞLU</b>	: Member of the Board and the Executive Committee
<b>İsmail GERÇEK</b>	: Member of the Board
<b>Prof. Dr. Mecit EŞ</b>	: Member of the Board
<b>Mehmet BÜYÜKEKŞİ</b>	: Member of the Board
<b>Ogün ŞANLIER</b>	: Independent Board Member
<b>Arzu AKALIN</b>	: Independent Board Member
<b>M. Muzaffer AKPINAR</b>	: Independent Board Member

Brief resumes of our Board of Directors are reachable via THY Investor Relations Website. (<http://investor.turkishairlines.com/en/governance/board-of-directors>)

**COMMITTEES**

**Audit Committee**

Chairman: M. Muzaffer Akpınar  
Member: Ogün Şanlıer

**Corporate Governance Committee**

Chairman: Arzu Akalın  
Member: Mehmet Büyükeksi, İsmail Gerçek, Duygu İnceöz (Yatırımcı İlişkileri Müdürü)

**Early Identification of Risks Committee**

Chairman: Ogün Şanlıer  
Member: M. Muzaffer Akpınar

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**5. SENIOR MANAGEMENT**

Information about the Senior Management of the Incorporation are presented below (as of 31 December 2015):

<b>Name</b>	<b>Title</b>	<b>Starting Date of Position</b>	<b>Profession</b>
Coşkun Kılıç	Chief Financial Officer	08.03.2006	Economist, Certified Sworn Fiscal Advisor, Independent Auditor
Dr. Ahmet Bolat	Chief Investment and Technology Officer	23.01.2012	Industrial Engineer
Mehmet Akif Konar	Chief Commercial Officer	16.04.2013	Management Engineer
Ahmet Olmuştur	Chief Marketing Officer	30.04.2014	Business Management, Manager
Abdulkerim Çay	Chief Human Resources Officer	21.04.2015	Business Management, Manager
Ali Serdar Yakut	Chief Corporate Development and IT Officer	01.06.2015	Computer Engineer
Levent Yılmaz	Chief Flight Operations Officer	30.11.2015	Air Force Academy, Pilot

**6. HUMAN RESOURCES**

Number of personnel with 11% increase reached to 22,030 during the period of January-December 2015 from 19,902 for the year end 2014. Personnel numbers according to classes in 2014 and 2015 are as follows:

	<b><u>31.12.2014</u></b>	<b><u>31.12.2015</u></b>	<b><u>Change (%)</u></b>
Cockpit Personnel	3,892	4.374	12%
Cabin Personnel	7,736	8.676	12%
Aircraft Maintenance Tech.	236	234	-1%
Staff Abroad	2,748	2.970	8%
Domestic Staff	5,290	5.776	9%
<b>TOPLAM</b>	<b>19,902</b>	<b>22.030</b>	<b>11%</b>

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**7. DEVELOPMENTS WITHIN THE INCORPORATION**

**Regular General Assembly Meeting of our Incorporation**

The Regular General Assembly Meeting was held on April 6, 2015. All documents regarding the Meeting are accessible via the Incorporation's Investor Relations Web Site.

(<http://investor.turkishairlines.com/en/governance/general-assembly/1/2015>)

Some of the Significant Resolutions taken at the Regular General Assembly Meeting are stated below:

**Increase of Authorized Capital**

In accordance with the Capital Markets Boards' Communique on Authorized Capital System (II-18.1), the Incorporation has decided to increase its Authorized Capital from 2,000,000,000 TL, which was valid for 2010-2014 to 5,000,000,000 Turkish Lira to be valid for 2015-2019.

**Amendments to the Articles of Association**

The Incorporation has decided to make the related Amendment to Article 6 – "Share Capital and Share Certificates", regarding the increase of authorized capital, Amendments to Articles 10, 11, 15, 21, 22, 23, 24, 25, 29, 36, 37 and 40 in order to comply with the Turkish Commercial Code and also additional Amendments to Articles 3, 4, 14 and 34. The details of the amendments are accessible via the Incorporation's Investor Relations Website. (<http://investor.turkishairlines.com/en/governance/articles-of-association>)

**Board Member Appointment**

Mr. Mehmet İlker Aycı was elected as the Chairman of the Board, Mr. Temel Kotil as the Vice Chairman of the Board, Mr. Mehmet Büyükekşi, Mr. İsmail Gerçek, Mr. Mecit Eş, Mr. Ogün Şanlıer, Ms. Arzu Akalın, Mr. Mehmet Muzaffer Akpınar and Mr. Cenk Dilberoğlu as Board Members for the duration of two years.

**Committee Appointments**

The Incorporation has decided to appoint Chairman of the Board Mr. Mehmet İlker Aycı as Chairman of the Executive Committee, Vice Chairman of the Board and General Manager Mr. Temel Kotil as Vice Chairman of the Executive Committee and Board Member Mr. İsmail Gerçek as the Member of the Executive Committee, Independent Board Members Mehmet Muzaffer Akpınar(Committee Chairman) and İsmail Cenk Dilberoğlu to the Audit Committee, Independent Board Member Arzu Akalın (Committee Chairman), and Board Members Mehmet Büyükekşi, İsmail Gerçek and Investor Relations Manager Duygu İnceöz to the Corporate Governance Committee (within the scope of Communiqué Serial II. No.17.1 on Corporate Governance Principles of the Capital Markets Board) and Independent Board Members İsmail Cenk Dilberoğlu (Committee Chairman) and Mehmet Muzaffer Akpınar to the Early Identification of Risks Committee.

As of 4 December 2015, Board Member İsmail Cenk Dilberoğlu has been appointed as the Member of the Executive Committee replacing Executive Committee member İsmail Gerçek.

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The Incorporation has decided for Board Member Oğün Şanlıer to serve as an Independent Board Member until the approval of the closest General Assembly and has appointed him as Chairman of the Early Identification of Risks Committee and Member of the Audit Committee.

**Corporate Rating**

Moody's and S&P, two of the most respectful international credit rating agencies, assigned Turkish Airlines' first time public corporate rating to be Ba1 and BB+, respectively. In May 2015, S&P decreased Turkey's rating from BB+ to BB and therefore Turkish Airlines' corporate rating has been decreased to BB.

**Private Offerings of EETC**

Private offering of enhanced equipment trust certificates with an aggregate face amount of U.S. \$328,274,000 for the purpose of financing three wide body Boeing 777-300ER aircraft delivered in March 2015 and April 2015, has been made. The public disclosure dated 19.03.2015 includes the details, regarding pricing and structure of the offering.

Private offering of Enhanced Equipment Trust Certificates (EETC) with an aggregate face amount of JPY 11.9 billion (approximately Usd 99.3 million) for the purpose of financing three Airbus A321-200 aircraft delivered in September 2015, October 2015 and November 2015, has been made. The public disclosure dated 12.09.2015 includes the details, regarding pricing and structure of the offering.

**Change in Ticket Prices**

Our Incorporations decision to convert international ticket sales originating in Turkey from EUR to USD has been approved by IATA and has been put into action in 20.05.2015. International ticket sales originating in Turkey constitute around 15 percent of the total revenue.

**Merger of THY Teknik A.Ş. and THY Habom A.Ş**

It has been announced that THY HABOM and THY Technic would be merged, by transferring all shares, assets and liabilities of THY HABOM to THY Technic. The merger has been registered and published on Turkish Trade Registry Gazette dated 10.06.2015.

**Letter of intent with LOT Polish Airlines**

In 14 August 2015, LOT Polish Airlines and Turkish Airlines have agreed to enhance their commercial ties. A letter of understanding have been signed by both parties, which will initiate an enhanced cooperation between relevant Polish, Turkish and beyond markets and also deepen commercial cooperation on the existing ones. Details of the cooperation will be determined after a mutual work of parties. Any further development will be announced accordingly.

**Turkish Technic - 5th Contract Period**

As a result of the negotiations made between Turkish Technic and Çelik-İş Union, 5th Collective Bargaining Agreement has been signed, regarding 5500 employees, covering 3 year period starting from 1 July 2015.

According to the Agreement, the wage increase for the second half of 2015 will be 7% ,for the first half 2016 will be 5% and for the following periods, it will be equal to inflation rate of relevant period plus rate of 0.5%. Apart from this, the monthly-paid social aid will increase from 390.-TL to 485.-TL for the first year, from 485.-

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TL to 550.-TL for the second year and from 550.-TL to 615.-TL for the third year. A onetime gross payment of 1.550.-TL will be made to the unionized staff.

**Senior Management Change**

Mr. Ömer Faruk ÖZTÜRK, Chief Human Resources Officer of our Incorporation, has left his position by mutual agreement. Mr. Abdülkerim ÇAY, employed outside of our Incorporation, has been appointed as Chief Human Resources Officer.

The Board of Directors has decided to establish Office of Chief Corporate Development and Information Technologies Officer, reporting directly to the General Manager, thus appoint Mr. Ali Serdar Yakut as Chief Corporate Development and Information Technologies Officer. Senior Vice Presidency of Corporate Development and Information Technologies and all of its sub-staff is decided to be reporting to the Office of Chief Corporate Development and Information Technologies Officer.

Our Chief Flight Operations Officer Mr. Ahmet Asaf BORA has left his position as of November 30, 2015 by mutual agreement. General Aviation VIP Aircraft Operations Manager Mr. Levent YILMAZ has been appointed as Chief Flight Operations Officer.

**2016 Guidance Has Been Announced**

According to the non-consolidated 2016 budget that was approved by the Board of Directors, the guidance regarding the Incorporation's targets and expectations for the year 2016 is as follows:

**Fleet / Network Development**

By the end of 2016 the fleet size is planned to reach to 339, including 240 narrow-body, 87 wide-body and 12 cargo aircraft. With 6 new route additions, destinations served will reach 290.

**Traffic Development**

Total number of passengers carried is targeted to reach 72,4 million including 30,6 million on scheduled domestic routes, 40,8 million on scheduled international routes, and the rest on charter and hajj flights.

While passenger load factor is expected to be 78%, total Available Seat Kilometers (ASK) will reach to 186 billion with an increase of 21% compared 2015. Capacity (ASK) increase is expected to be 11% in Turkey, 31% in America region, 27% in Africa region, 23% in Far East region, 17% in Europe region and 17% in Middle East region.

In 2016, cargo/mail carried will increase by 13% reaching 815 thousand tonnes.

**Financial Development**

In 2016, the Incorporation's number of personnel on average is expected to increase by 19% along with 18% increase in fuel consumption compared to 2015.

Under the assumptions of average 1,10 for EUR/USD, average 3,14 USD/TRY and average jet fuel (inc. Hedge) 647\$/per ton, the Incorporation is targeting to generate 12,2 Billion USD of sales revenue. But, the sales revenue is expected to be below 12,2 billion USD, led by ensuing additional decrease in fuel prices and its effect on ticket prices.

Compared to 2015, close to 3% decrease (in USD terms) in passenger unit revenue is expected and close to 1,5% decrease in ex-fuel unit costs (in USD terms) is targeted.

Targeted EBITDAR margin is 20-22%.

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**Turkish Airlines - 25th Contract Period**

Negotiations between our Incorporation and Hava-Is Labor Union which represents approximately 17.500 Turkish Airlines employees, regarding the 25th Collective Bargaining Agreement began in February 10, 2016 2:00 pm Istanbul time at Turkish Airlines Headquarters. As of the date of this report, the negotiations are running its course.

**8. TRAFFIC RESULTS**

January-December traffic results are shown below:

	<b>TOTAL</b>		
	<b>2014</b>	<b>2015</b>	<b>Change (%)</b>
Number of Landing	413,492	452,982	9.6%
Available Seat Km ('000)	134,808,945	153,209,252	13.6%
Revenue Passenger Km ('000)	106,913,334	119,371,923	11.7%
Passenger Load Factor (%)	79.3%	77.9%	-1.4 pt
Passengers Carried	54,790,402	61,248,192	11.8%
Int-to-Int Transfer Passengers Carried	15,564,242	18,385,283	18.1%
Cargo and Mail (Tons)	662,689	720,440	8.7%
Fleet	261	299	14.6%
Seat Capacity	48,163	56,899	18.1%
Number of Destinations	261	284	8.8%
Km Flown ('000)	791,602	864,586	9.2%
Hours Flown	1,156,163	1,289,771	11.6%
Utilization*	12:42	12:43	0.1%

\* Based on 252 aircraft for 2014, 279 aircraft for 2015.

	<b>DOMESTIC</b>		
	<b>2014</b>	<b>2015</b>	<b>Change (%)</b>
Number of Landing	171,818	191,485	11.4%
Available Seat Km ('000)	17,342,903	19,614,860	13.1%
Revenue Passenger Km ('000)	14,209,519	16,370,433	15.2%
Passenger Load Factor (%)	81.9%	83.5%	1.5 pt
Passengers Carried	22,726,817	26,303,947	15.7%
Cargo and Mail (Tons)	51,026	52,251	2.4%
Km Flown ('000)	105,953	117,791	11.2%



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	<b>INTERNATIONAL</b>		
	<b>2014</b>	<b>2015</b>	<b>Change (%)</b>
Number of Landing	241,674	261,497	8.2%
Available Seat Km ('000)	117,466,043	133,594,391	13.7%
Revenue Passenger Km ('000)	92,703,815	103,001,491	11.1%
Passenger Load Factor (%)	78.9%	77.1%	-1.8 pt
Passengers Carried	32,063,585	34,944,245	9.0%
Cargo and Mail (Tons)	611,663	668,189	9.2%
Km Flown ('000)	685,650	746,796	8.9%

- **Scheduled Domestic Flights:**

During January-December 2015, the Incorporation started operating new domestic scheduled flights with TK main brand to new domestic destinations stated below:

<b><u>Flight Destination</u></b>	<b><u>Flight Inaugural Date</u></b>
ORDU-GIRESUN	22.05.2015
HAKKARI	26.05.2015
SIİRT	25.12.2015

- **Scheduled International Flights:**

During January-December 2015, the Incorporation started operating scheduled flights with TK main brand to new international destinations stated below:

<b><u>Flight Destination</u></b>	<b><u>Flight Inaugural Date</u></b>
ABUJA – Nigeria	03.03.2015
AHVAZ - Iran	16.03.2015
MANILA - Philippines	30.03.2015
TAIPEI - Taiwan	31.03.2015
SAN FRANCISCO - USA	13.04.2015
BARI - Italy	28.04.2015
PORTO - Portugal	30.04.2015
BAMAKO - Mali	26.05.2015
GRAZ - Austria	22.06.2015
BADEN-BADEN - Germany	30.06.2015
KHUJAND - Tajikistan	03.08.2015
MIAMI - ABD	25.10.2015

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MAPUTO - Mozambik	28.10.2015
DURBAN – G. Afrika Cum.	05.11.2015
ANTANANARIVO - Madagaskar	15.12.2015
PORT LOUIS - Mauritius	15.12.2015
ZAPORIJYA - Ukrayna	28.12.2015

Besides, during January-December 2015, scheduled flights from Sabiha Gökçen Airport to Baku in Azerbaijan, Cologne and Stuttgart in Germany, Barcelona in Spain, Erbil in Iraq, Dubai in UAE and Rome in Italy have been started.

- **Additional, Charter and Hajj-Umrah Flights**

During January-December 2015, number of additional, charter and Hajj-Umrah flights and number of passengers carried on these flights are stated on the table below:

	Number of Flights		Number of Passengers
	Domestic	International	
Additional	2.042	836	159.115
Charter	1.261	2.106	621.018
Hajj-Umrah	-	3.728	458.737

- **AnadoluJet Flights:**

Scheduled and Additional Flights	2014	2015	Change (%)
Revenue Passenger (000)	8.482	10.604	25%
Avaliable Seats*Km (Millions)	10.583	12.917	22%
Passenger Load Factor (%)	81,1	83,0	+1,9p

- AnadoluJet has been pursuing its operations with wet-lease aircraft from SunExpress and Borajet. (Boeing 737-700,737-800 and Embraer E-190)
- As of December 2015, 18 aircraft is based in Ankara Esenboğa and 12 in İstanbul Sabiha Gökçen.
- By the end of December 2016, number of aircraft went up to 30 from 26 of December 2015. (24 B737-800, 3 E190, 3 E-195)
- As of December 2015, AnadoluJet flies to a total of 45 destinations.(Esenboğa based 37, Sabiha Gökçen based 26, point to point (cross) flights 7)
- As of December 2015, Sabiha Gökçen and Ankara Esenboğa based capacity has increased by 39% and 8%, respectively,. (Total rate of 23%)

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- As of December 2015, L/F increased by 1.9 point to 83%.

**9. FLEET**

31.12.2015	Type	Owned	Financial Lease	Opr./Wet Lease	Seat Capacity	Average Fleet Age	Total
<b>Wide Body</b>	A330-200		5	15	4,702	8.3	20
	A330-300		25	1	7,516	2.5	26
	A340-300	4			1,080	17.6	4
	B777-3ER		23		7,883	3.0	23
	<b>Total</b>	<b>4</b>	<b>53</b>	<b>16</b>	<b>21,181</b>	<b>5.1</b>	<b>73</b>
<b>Narrow Body</b>	B737-900ER		15		2,355	2.5	15
	B737-9 MAX						
	B737-800	25	33	10	10,940	9.7	68
	B737-700			3	372	9.9	3
	B737-8 MAX						
	A321 NEO						
	A319-100		6	8	1,848	7.7	14
	A320-200		12	17	4,572	8.6	29
	A321-200		52	4	10,170	4.3	56
	B737-800 WL			24	4,536	9.3	24
	B737-700 WL			1	149	8.8	1
	E190 WL/E195 WL			6	684	6.9	6
<b>Total</b>	<b>25</b>	<b>118</b>	<b>73</b>	<b>35,626</b>	<b>7.4</b>	<b>216</b>	
<b>Cargo</b>	A330-200F		6			3.2	6
	Wet Lease			4		19.0	4
	<b>Total</b>		<b>6</b>	<b>4</b>		<b>9.5</b>	<b>10</b>
<b>GRAND TOTAL</b>		<b>29</b>	<b>177</b>	<b>93</b>	<b>56,807</b>	<b>6.9</b>	<b>299</b>

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**10. FINANCIAL SITUATION**

**SUMMARY OF BALANCE SHEET (Mn TRY)**

	<b>31 December 2015</b>	<b>31 December 2014</b>
<b><u>ASSETS</u></b>		
Current Assets	9,148	6,565
Non-Current Assets	38,490	25,311
<b>Total Assets</b>	<b>47,638</b>	<b>31,876</b>
<b><u>LIABILITIES</u></b>		
Total Current Liabilities	11,248	8,506
Total Non-Current Liabilities	22,300	14,216
Total Equity	14,090	9,154
<b>Total Liabilities and Equity</b>	<b>47,638</b>	<b>31,876</b>
Debt to Assets Ratio	0.70	0.71
Equity Ratio	0.30	0.29

**SUMMARY OF INCOME STATEMENT (TRY)**

	<b>1 Jan. – 31 Dec. 2015</b>	<b>1 Jan. - 31 Dec. 2014</b>
Sales Revenue	28,752	24,158
Gross Profit	5,793	4,429
Operating Profit Before Investment Activities	2,486	1,443
Profit Before Tax	3,911	2,261
<b>Profit for the Period</b>	<b>2,993</b>	<b>1,819</b>
<b>Earnings Per Share (Kr)</b>	<b>2.17</b>	<b>1.32</b>

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	31 December 2015	31 December 2014
<b><u>ASSETS</u></b>		
Current Assets	3,146	2,831
Non-Current Assets	13,237	10,915
<b>Total Assets</b>	<b>16,383</b>	<b>13,746</b>
<b><u>LIABILITIES</u></b>		
Total Current Liabilities	3,871	3,667
Total Non-Current Liabilities	7,670	6,129
Total Equity	4,842	3,950
<b>Total Liabilities and Equity</b>	<b>16,383</b>	<b>13,746</b>
Debt to Assets Ratio	0.70	0.71
Equity Ratio	0.30	0.29

**SUMMARY OF BALANCE SHEET (USD Million)**

	1 Jan. - 30 Dec. 2015	1 Jan. - 30 Dec. 2014
Sales Revenue	10,522	11,070
Gross Profit	2,102	2,040
Operating Profit Before Investment Activities	895	676
Profit Before Tax	1,407	1,046
<b>Profit for the Period</b>	<b>1,069</b>	<b>845</b>
<b>Earnings Per Share (USc)</b>	<b>0.77</b>	<b>0.61</b>
<b>EBITDAR</b>	<b>2,580</b>	<b>2,085</b>
<b>EBITDA</b>	<b>1,963</b>	<b>1,551</b>
<b>EBIT</b>	<b>1,039</b>	<b>808</b>
EBITDAR Margin	%24.5	%18.8
EBITDA Margin	%18.7	%14.0
EBIT Margin	%9.9	%7.3
Operating Profit Margin	%8.5	%6.1
Net Profit Margin	%10.2	%7.6

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**11. INVESTMENTS, INCENTIVES AND INVESTMENT POLICIES**

Within the scope of “2009-2013 Fleet Projection” and “2012-2020 Fleet Plans”, confirmed by the Board, number of aircraft and delivery years are stated on the following table.

In order to insure the need for cargo aircraft, the Incorporation has decided to purchase a total of 4 A330-200F. The first one was delivered on April 2015 and the rest will be delivered on April 2016, October 2016 and January 2017.

By the end of December 2015, number of wide body aircraft has reached 73, which makes up 24 % of the total fleet. Due to the effect of stage length and seat capacity, contribution of wide body aircraft to the production reached 47%.

		2011-2022 Aircraft Purchases														
		Delivered						To Be Delivered								
31.12.2015	Type	2011	2012	2013	2014	2015	TOTAL	2016	2017	2018	2019	2020	2021	2022	TOTAL	
Wide Body	A330-300	3	3	2	6	7	21	5							5	
	B777-3ER	7			4	7	18	6	3						9	
	<b>Total</b>	<b>10</b>	<b>3</b>	<b>2</b>	<b>10</b>	<b>14</b>	<b>39</b>	<b>11</b>	<b>3</b>						<b>14</b>	
Narrow Body	B737-900ER	2	7	1		5	15									
	B737-9MAX										5	5			10	
	B737-800	2	2	6	10		20	20							20	
	B737-8MAX									20	10	25	10		65	
	A321	8	7	9		13	37	10	2						12	
	A321 NEO										14	25	22	25	6	92
	A319	6					6									
<b>Total</b>	<b>18</b>	<b>16</b>	<b>16</b>	<b>10</b>	<b>18</b>	<b>78</b>	<b>30</b>	<b>2</b>	<b>34</b>	<b>40</b>	<b>52</b>	<b>35</b>	<b>6</b>	<b>199</b>		
Cargo	A330-200F	1	1	2		1	5	2	1						3	
	<b>Total</b>	<b>1</b>	<b>1</b>	<b>2</b>		<b>1</b>	<b>5</b>	<b>2</b>	<b>1</b>						<b>3</b>	
<b>GRAND TOTAL</b>		<b>29</b>	<b>20</b>	<b>20</b>	<b>20</b>	<b>33</b>	<b>122</b>	<b>43</b>	<b>6</b>	<b>34</b>	<b>40</b>	<b>52</b>	<b>35</b>	<b>6</b>	<b>216</b>	

**Decree on State Aids for Investments**

The incorporation had completed 13,245,403,524 TRY in total value of aircraft investments since 31.05.2010 in scope of the Investment Incentive Certificate obtained within the framework of “Decree on State Aids for Investments” put to force by the Cabinet on 14.07.2009. According to the incentive certificate, a 50% discounted corporate tax (i.e. 10% tax rate) will be applied to the income generated by the related aircraft until the total amount of contributions invested of 2,649,080,704 TRY (20% of total investment) is reached. In this context, 16,587,441 TRY tax advantage has been attained in 2012.

The incorporation has decided to terminate the aforementioned certificate and apply for a new certificate for the 32,049,048,095 TRY total values of aircraft investments that is planned to be made as of 01.12.2014 within the framework of “Cabinet Decree on State Aids for Investments” put to force on 15.06.2012. According to this new certificate, a 50% discounted corporate tax (i.e. 10% tax rate) will be applied to the income generated by the related aircraft, until this amount reaches 15% of total investment.

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**12. PROJECTIONS ABOUT THE COMPANY**

The Incorporation has decided to start operating scheduled flights, based on aircraft availability, to the cities Hanoi of Vietnam, Makhachkala of Russia, Atlanta of USA, Abha of Saudi Arabia, Aswan and Luxor of Egypt, Bogota of Colombia, Caracas of Venezuela, Conakry of Republic of New Guinea, Havana of Cuba, Ivana-Frankivsk and Kharkiv of Ukrain, Krakow of Poland, La Coruna of Spain, Lenkeran of Azerbaijan, Luanda of Angola, Mexico City of Mexico, Nantes of France, Dubrovnik of Croatia, Kosice of Slovakia and Panama.

Flying to more countries than any other airline in the world, the Incorporation aims to be among the leading airlines in the world by maintaining its steady growth in parallel to the growth in number of transfer passengers by providing wide-body fleet investments, capacity increases mainly in long-range flights and new routes. In addition, the Incorporation is targeting to increase unit revenue by increasing passenger revenue of Business Class through the improvement of service quality and the expansion of cargo operations.

**DISCLAIMER**

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